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Freddie Mac's New Top Officer Wins Praise as Professional

But Close Scrutiny Lies Ahead for Gregory Parseghian, Company

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On Wall Street, Freddie Mac's new chief executive, Gregory Parseghian, won quick praise as a financial pro who can restore credibility to the shaken mortgage behemoth.

But it may well be in Washington, D.C., where the fate of Mr. Parseghian -- and of Freddie Mac -- is ultimately decided.

Freddie Mac in coming weeks is expected to come under an unusual degree of scrutiny in the nation's capital in the wake of recent questions about the company's accounting practices. Like its larger mortgage-industry sibling, Fannie Mae, Freddie Mac operates under a government charter, and it is constantly under attack from political opponents who would like to rein in the company's rapid growth.

But unlike Fannie Mae's CEO, Franklin Raines, who is a former Clinton administration official and a consummate politician, Mr. Parseghian, 42 years old, has little experience working with elected officials and is somewhat a mystery to political observers in Washington.

That lack of experience could become an issue as the company struggles with the fallout from its accounting problems, which this week led to the ouster of three of its top executives, including longtime CEO Leland Brendsel. Under Mr. Brendsel, Freddie Mac tended to take a low profile in Washington, but Mr. Parseghian won't have that luxury. Already, key U.S. lawmakers are planning hearings on the company's accounting practices, which revolved around problems with the way Freddie Mac accounted for certain hedging transactions. In addition, Federal Reserve Chairman Alan Greenspan said he favors legislation that would subject Fannie Mae and Freddie Mac to the same securities laws that govern other publicly traded companies. Right now, the companies aren't required to follow the same securities reporting laws as other public companies.

Freddie Mac is also taking heat from lawmakers for failing to fully disclose the compensation packages of its ousted executives. An analysis of the company's 2002 proxy statement indicates that it could continue to pay Mr. Brendsel an annual salary of at least \$1.1 million for the next two years as well as a \$500,000 annual pension. The ex-CEO also departs with stock options valued at more than \$22 million as of Dec. 31, 2001, according to the proxy. Company officials are still refusing to release full employment contracts as well as terms of the termination pacts of its three former executives, even though Freddie Mac agreed last July to voluntarily provide such information to the Securities and Exchange Commission.

Any missteps by Mr. Parseghian could be disastrous, because a change in the company's government charter could drastically affect its profitability. He also could have a tough time convincing lawmakers that, given his role as a senior officer at the company at the time of the problems, he now will be able to make significant changes. **"Scores of people have come from Wall Street and corporate America and flamed out because they're not sensitive to the political dynamics here," warns Nancy E.**

Roman, president of G7 Group, a Washington-based advisory firm, who cited former Treasury secretary and Alcoa Inc. chief Paul O'Neill as an example. Though Ms. Roman says she doesn't know Mr. Parseghian well enough to comment on his political skills, "It absolutely matters that people at Fannie [Mae] and Freddie [Mac] need to know the ropes politically as well as economically."

The choice of Mr. Parseghian to run Freddie Mac has certainly helped calm nerves on Wall Street, where Mr. Parseghian has long been well regarded. In a note to clients Monday, Lehman Brothers analyst Bruce Harting called Mr. Parseghian "the IDEAL person" for the CEO job, describing him as "one of the most brilliant practitioners in the early development of the mortgage-backed securities market." Ken Posner, an analyst at Morgan Stanley, said "his leadership should go a long way to calming the market in coming months."

While news of the upheaval at Freddie Mac raised the specter of a big selloff in the company's stock and huge disruptions in the key mortgage business, Freddie Mac's stock and bond prices began to stabilize Tuesday, after falling Monday. In 4 p.m. New York Stock Exchange composite trading Tuesday, the company's shares were up \$1.24, or 2.5%, to \$51.50, after tumbling 16% on news of the management shake-up Monday, although its bonds weakened somewhat.

That stabilization was helped by the view among some investors that Mr. Parseghian wouldn't have taken the helm unless he was convinced there were no more nasty surprises waiting in the wings.

In an interview, Mr. Parseghian said clearing up the accounting issue is his top priority. To that end, his first act as the new CEO was to meet with Armando Falcon, director of the company's regulator, the Office of Federal Housing Enterprise Oversight, on Monday morning. "I apologized to him for the conduct of key Freddie Mac senior officials and pledged to him that under my direction he will find that Freddie Mac is fully cooperative," he said. He also held a meeting with more than 1,000 Freddie Mac employees, at which he discussed the company's problems.

As for whether his lack of political experience represents a liability, Mr. Parseghian noted that while he hasn't worked closely in developing the company's political strategies, he has spent a lot of time in recent years meeting with key Federal Reserve and Treasury officials. He said he also will rely on the expertise of the company's top lobbyist, Mitchell Delk, who has been with Freddie Mac for more than a decade.

Wall Street's confidence in Mr. Parseghian stems largely from his experience working closely with some of the heaviest hitters in the mortgage-backed bond business. Before joining Freddie Mac in 1996, Mr. Parseghian was a partner and investment manager at Blackrock Financial Management, one of the country's biggest mortgage investors. He also was a top-ranked research director at Salomon Brothers, now part of Citigroup Inc., and head of fixed-income research at First Boston, now part of Credit Suisse First Boston. He made a mark sniffing out turns in the market before colleagues, and shifting investments to prepare for big moves.

A decade ago, Mr. Parseghian accurately predicted the surge in mortgage refinancings, as interest rates fell, and predicted that more obscure mortgages, such as those taken out to fund major construction projects, would do best.

In 1996, Mr. Parseghian moved to Freddie Mac, where he quickly became known as one of the company's rising stars, and within a few years he was already being discussed as the heir apparent to Mr. Brendsel.

As chief investment officer of the company, Mr. Parseghian was responsible for the day-to-day management of Freddie Mac's \$600 billion loan portfolio, the most profitable segment of its business. His job also included the daunting task of hedging the enormous risks -- which go along with owning the nation's second-largest mortgage portfolio -- through a highly complex array of derivatives and other instruments. Though some critics fear the company's use of derivatives could backfire and create a financial mess, to date Mr. Parseghian's work has helped Freddie Mac weather a variety of economic storms with less volatility than that seen at Fannie Mae.

Under Mr. Parseghian's guidance, Freddie Mac gained a reputation as the more conservative of the two government-sponsored mortgage companies. While that made Freddie Mac less profitable than some investors would have liked, it boosted the company's image last year when Fannie Mae appeared to struggle from rapid moves in interest rates. Whether Mr. Parseghian's strategy continues to attract fans, however, could depend on the outcome of the current accounting imbroglio.

"The concern I have is that Freddie [Mac] had convinced a lot of people -- myself included -- that they were better risk managers than Fannie [Mae], and that their philosophy was different," says Bert Ely, a financial-industry consultant in Alexandria, Va. and longtime critic of the two companies. Now, the latest accounting problem "has to raise questions about all aspects of their risk management," he says, including Mr. Parseghian's work. "Everything is now open to question."